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The Honorable Carl Levin
Chairman, Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
United States Senate

The Honorable William S. Cohen
Ranking Minority Member, Subcommittee on
Oversight of Government Management
Committee on Governmental Affairs
United States Senate

This letter responds to your request for information on the Federal Buildings Fund's (FBF) ability to finance needed capital investment in federal buildings controlled by the General Services Administration (GSA). It is based on (1) our extensive body of past reports and testimonies on public buildings issues and (2) audit work we completed in May 1992 on GSA's space ownership goals, identified building capital investment needs, and projected FBF revenues and expenditures over the 10-year period ending in 2002. This data is as of May 1992, and it is the most current data available to us. Unless noted otherwise, the dollars referred to in this letter are current year dollars.

Background

The FBF, established by Congress in 1972, replaced direct congressional appropriations to GSA as the means of financing the operating and capital costs associated with federal space. GSA charges federal agencies rent that is supposed to be comparable to local commercial rents, deposits these receipts in the FBF, and uses them, subject to congressional limitations, to pay building operating and capital expenses. Rent payments were expected to provide (1) a financial incentive for agencies to reduce their space costs and (2) a steadier, more predictable source of funds than direct appropriations.

In a series of reports and testimonies over the past 4 years on public buildings issues and GSA's management practices, we have stressed that for 2 decades the federal government has neglected needed capital investment in the federal buildings infrastructure and that this neglect is shortsighted and has

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serious long-term cost and operational consequences. Our reports and testimonies have (1) emphasized that billions of dollars could be saved over time by owning rather than leasing federal buildings; (2) disclosed that the Pentagon and other federally-owned buildings have been neglected and gradually allowed to become deteriorated, antiquated, and in a few instances unsafe; (3) identified several obstacles impeding needed building capital investment and increased federal ownership of office space; and (4) made several recommendations to GSA and Congress for a more foresighted, cost-effective means of meeting federal space needs. The enclosure to this letter identifies our key reports and testimonies in these areas.

FBF limitations

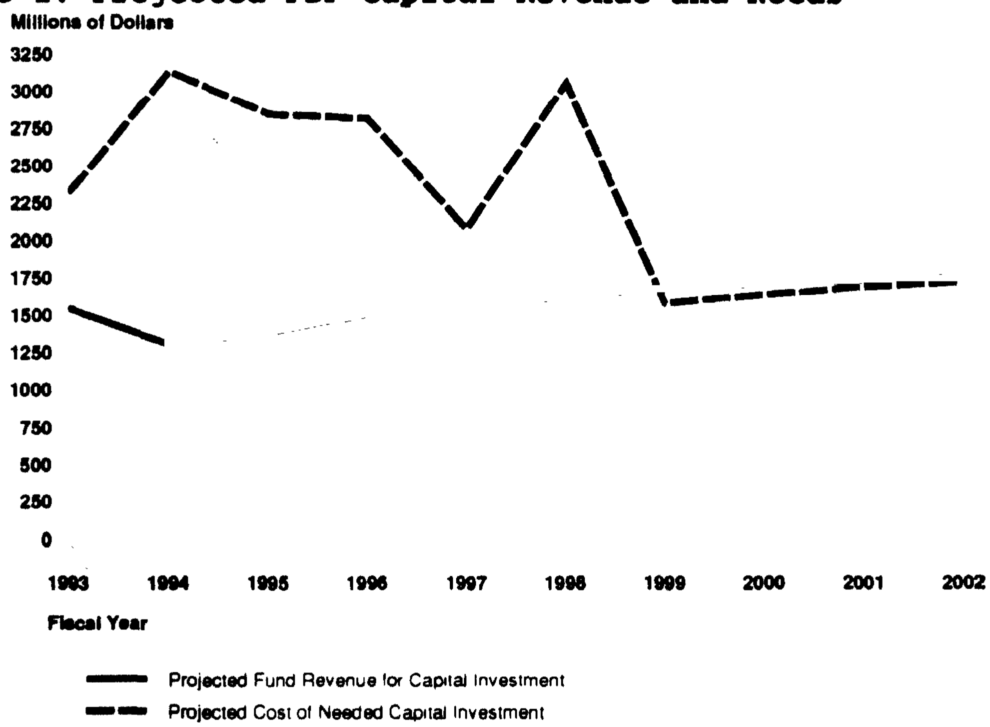
While federal agencies' rent payments have provided a relatively stable, predictable source of revenue for the FBF, that revenue has not been sufficient to finance both growing capital investment needs and the costs of leased space. Expressed in 1991 dollars, the FBF was expected to generate over $550 million annually for the construction or purchase of new buildings. However, it produced an average of only $112 million annually between 1975 and 1991. During the 5 years preceding the FBF's establishment, over $330 million annually was available from direct appropriations to finance such capital spending.

One reason the FBF generated less revenue than anticipated was that the Office of Management and Budget (OMB) and Congress periodically restricted the rent GSA charged federal agencies. Between 1975 and 1988, governmentwide rent restrictions reduced available FBF revenue by about $4 billion (in 1991 dollars). Although OMB and Congress have now eliminated most of these rent restrictions, GSA estimates that remaining rent limitations affecting the Departments of Agriculture and Transportation, Food and Drug Administration, Social Security Administration, Health Care Financing Administration, and Railroad Retirement Board reduced available FBF revenue by about $1 billion between 1988 and 1992.

The cumulative shortfall in the funds available for needed capital investment also may be attributable at least in part to the FBF's design. FBF revenues (rent receipts from federal agencies) are not related directly to the projected costs of long-term capital replacement or expansion. They are a function of local prevailing commercial rental rates upon which federal agencies' rent payments are based. However, the operating costs and capital needs for the inventory of federal buildings typically are greater than those of commercial buildings. Unlike commercial buildings, many federal buildings are monumental in design, historically significant, and likely will remain in the inventory indefinitely. Thus, there is little assurance that the FBF revenues resulting from commercially-based rents will be adequate for federal capital investment purposes. This could occur, but it would be by happenstance, not by design.

As illustrated in figure 1, our May 1992 analysis of GSA's space ownership goals and estimated capital budgets and projected FBF revenues and expenditures over the next 10 years showed that the FBF will fall far short of meeting GSA's identified capital investment needs, especially during fiscal years 1993-1999.

Figure 1: Projected FBF Capital Revenue and Needs



Source: GAO (based on GSA data)

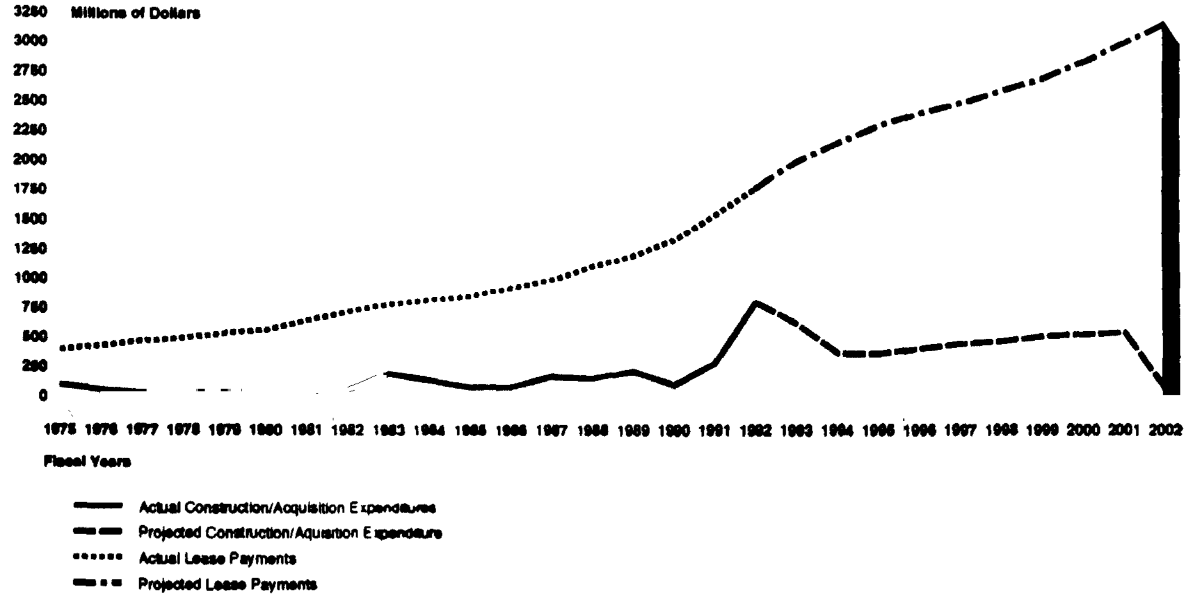
As of May 1992, FBF revenues available for capital investment were projected to average $1.6 billion annually over the next 10 years. However, GSA estimated that an average of $2.3 billion annually would be needed--a cumulative $7 billion shortfall. Of this projected $7 billion shortfall, $5.8

billion represented construction/acquisition of new federal buildings and $1.2 billion represented repairs and modernization of existing federal buildings. If GSA's identified capital needs were to be satisfied, this shortfall would have to be financed by additional borrowing and/or direct appropriations.

Using GSA projections of FBF revenues and expenditures as of May 1992, we estimated that available funding for new building construction or purchases would average $470 million annually between 1993 and 2002. This was far short of the $1.1 billion annually GSA estimated would be needed to achieve its 75 percent space ownership goal. Additionally, there are numerous repair and modernization needs associated with GSA's aging inventory of 1,700 federally owned buildings. As we reported in May 1991, bringing existing GSA-controlled buildings up to acceptable quality and health and safety standards will cost billions of dollars. However, GSA's projections as of May 1992 indicated that, over the next decade, the FBF would be unable to finance all these needs.

As figure 2 shows, GSA's spending for leased space over the next 10 years is projected to continue to increase while spending for new building construction and purchases is expected to remain relatively stable.

Figure 2: Application of FBF Revenues



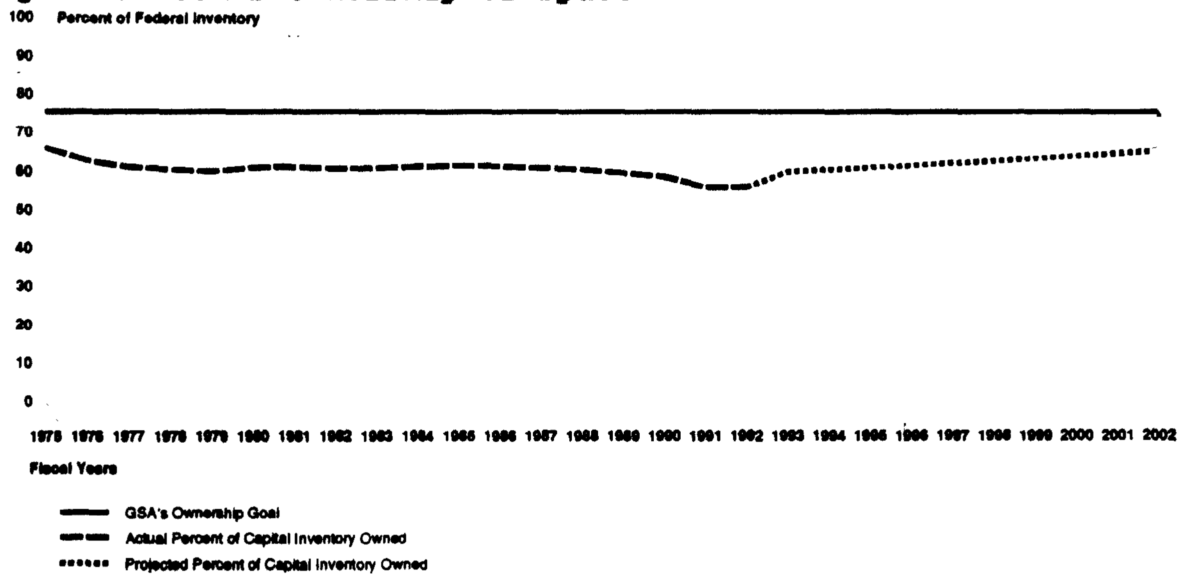
Source: GAO (based on GSA data)

GSA currently pays almost $2 billion annually for leased space. As of May 1992, GSA projected that its lease costs would rise to $3 billion annually by 2002. Between 1993 and 2002, GSA expected to use about 45 percent of projected FBF revenues to pay for leased space and another 28 percent for various other building operating and maintenance expenses; this would leave only about 27 percent for capital investment.

GSA's capital expenditures for building construction or acquisition increased sharply in 1990 and 1991, but this occurred only because Congress supplemented FBF revenues. Congress allowed GSA to use $1.9 billion that the FBF borrowed from the Federal Financing Bank in 1990 and appropriated $1.6 billion in 1991 to allow GSA to construct several new buildings. These FBF supplements permitted the first major federal buildings construction program in 20 years,

The effects of funding limitations on GSA's 75 percent space ownership goal are evident in figure 3.

Figure 3: GSA's Ownership of Space



Source: GAO (based on GSA data)

The percentage of GSA-controlled office space that is federally owned declined from about 65 percent when the FBF first began operating in 1975 to about 55 percent as of May 1992. By the year 2002, GSA expected that about 65 percent of the space it controls would once again be federally owned. However, about 40 percent of this expected increase in owned space would have been financed by the supplemental funding GSA received in 1990 and 1991, not by FBF rent receipts from federal agencies.

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We are sending copies of this letter to the Administrator of GSA, Director of OMB, and other interested congressional committees and subcommittees. Copies of this letter will be made available to others upon request.

If you have questions about the information in this letter or need additional information on this subject, please call me on 512-8387 or Robert B. Mangum of my GSA staff on 501-2538.

J. William Gadsby
Director, Government Business
Operations Issues

RELATED GAO REPORTS AND TESTIMONIES

Transition Series: General Services Issues (GAO/OCG-93-28TR, Dec. 1992).

General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98, Sept. 30, 1992).

Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar.31, 1992).

Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

Long-Term Neglect of Federal Building Needs (GAO/T-GGD-91-64, Aug. 1, 1991).

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991).

Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sep. 28, 1990).

The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1990).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989).

Building Purchases: GSA's Program Is Successful But Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct 31, 1989).

Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices (GAO/AFMD-90-1, Oct. 1989).

Public Buildings: Own or Lease? (GAO/T-GGD-89-42, Sep. 26, 1989).

Budget Issues: Restructuring the Federal Budget--The Capital Component (GAO/AFMD-89-52, Aug. 24, 1989).

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